

Message Text

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ACTION EUR-12

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FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 PA-02 PRS-01 L-03 /108 W

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R 061826Z JUL 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0225

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 11371

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JULY 5)

REF.: BONN 11041 AND BONN 9262

1. MONEY SUPPLY: IN MAY THE MONETARY EXPANSION AS MEASURED BY M1, M2 AND M3 CONTINUED TO ACCELERATE (FOR MAY DEVELOPMENTS OF CENTRAL BANK MONEY SEE BONN 11041). ON A SEASONALLY ADJUSTED BASIS MONETARY AGGREGATES DEVELOPED AS FOLLOWS (CHANGES IN DM BILLION):

LST QUARTER 1976

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(MONTHLY AVERAGE) APRIL 1976 MAY 1976

M1	0.3	1.3	5.8
M2	-0.1	2.8	2.8
M3	2.4	3.1	4.3

CONTRIBUTING TO THE MAY MONETARY EXPANSION WERE A RELATIVELY LARGE EXTENSION OF BANK CREDITS TO DOMESTIC NON-BANKS, A FURTHER DECLINE IN OFFICIAL ASSETS HELD AT THE BUNDESBANK, CONTINUED LOW INVESTMENTS IN BANK DEPOSITS (PARTICULARLY SAVINGS DEPOSITS) AND A DECLINE IN THE EXTERNAL ASSETS OF BANKS. HOWEVER, IN CONTRAST TO APRIL OF THIS YEAR WHEN BANK LENDING TO THE PRIVATE SECTOR ACCOUNTED FOR 88 PERCENT OF TOTAL BANK LENDING TO DOMESTIC NON-BANKS (SEE BONN 9262) THE PATTERN RETURNED TO ONE IN WHICH THE PUBLIC SECTOR IS THE PRIME BENEFICIARY, HAVING RECEIVED 55 PERCENT OF TOTAL BANK LENDING TO NON-BANKS IN MAY. INDIVIDUAL COMPONENTS AND DETERMINANTS OF THE MONEY SUPPLY FOR MAY (SEASONALLY NON-ADJUSTED, CHANGES IN BILLIONS OF DM) DEVELOPED AS FOLLOWS:

	MAY	APRIL	
	1976	1975	1976

I. BANK LENDING TO DOMESTIC

NON-BANKS	6.8	7.7	5.8
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OF WHICH TO

PUBLIC AUTHORITIES	3.8	4.1	0.7
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PRIVATE SECTOR	3.1	3.7	5.2
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II. NET EXTERNAL ASSETS OF

BANKS (INCL.BUNDESB.)	-1.9	0.1	0.8
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III. SAVINGS DEPOSITS AND

SAVINGS BONDS	2.2	6.3	1.4
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IV. TIME DEPOSITS (1)

AND OUTSTANDING BANK

BONDS (2)	2.0	1.5	2.6
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V. OFFICIAL ASSETS HELD AT

CENTRAL BANK	-2.0	-0.8	-4.3
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VI. OTHER	-2.3	1.2	1.9
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MONEY SUPPLY (M2)

(I PLUS II - III - IV -

V - VI	5.0	-0.4	5.1
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OF WHICH: CURRENCY IN

CIRCULATION AND SIGHT

DEPOSITS (M1)	5.8	4.2	2.9
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TIME -DEPOSITS WITH

MATURITIES UP TO

4 YEARS -0.8 -4.6 2.2

(1) WITH MATURITIES OF 4 YEARS AND MORE.

(2) EXCLUDING BONDS HELD BY BANKS.

2. FOREIGN EXCHANGE MARKET: THE DOLLAR FLUCTUATED
AGAINST THE DEUTSCHEMARK ONLY IN NARROW MARGINS DURING
THE WEEK UNDER REVIEW. THE PUBLICATION OF LEADING U.S.
ECONOMIC INDICATORS PROVIDED A TEMPORARY BOOST FOR THE

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----- 028010

R 061826Z JUL 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0226

INFO AMEMBASSY BERN

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DOLLAR ON TUESDAY, JUNE 29. DURING THE REPORTING WEEK

DAILY SPOT AND FORWARD DOLLAR RATES DEVELOPED AS
FOLLOWS:

FORWARD DOLLARS						
SPOT DOLLARS		(IN PCT. PER ANNUM)				
FIXING	OPENING	CLOSING	ONE-MONTH	THREE-MO.		
JUNE 28	2.5725	2.5730	2.5780	-1.7	-1.9	
29	2.5778	2.5800	2.5770	-1.9	-2.0	
30	2.5742	2.5800	2.5740	-1.6	-1.8	
JULY 1	2.5739	2.5750	2.5760	-2.1	-1.9	
2	2.5775	2.5720	2.5775	-2.1	-2.0	

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5	2.5764	2.5785	2.5770	-1.9	-1.9
6	N.A.	2.5762	N.A.	N.A.	N.A.

3. MONEY MARKET: AT THE BEGINNING OF THIS WEEK THE
GERMAN MONEY MARKET TIGHTENED AGAIN WITH CALL MONEY
INCREASING TO 0.7 TO 0.9 PERCENT ABOVE THE 3 1/2
PERCENT REDISCOUNT RATE. DURING THE REPORTING WEEK
FRANKFURT INTER-BANK MONEY RATES DEVELOPED AS
FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
JUNE 28	4.5-4.7	4.15	4.30
29	4.5-4.6	4.15	4.30
30H	4.3-4.5	4.15	4.30
JULY 1	4.1-4.3	4.15	4.30
2	3.9-4.1	4.10	4.30
5	4.2-4.4	4.10	4.30

4. BUNDESBANK FOREIGN POSITION: IN THE PERIOD JUNE 16-
23 THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY
DM 0.2 BILLION TO DM 90.3 BILLION. FACTORS CONTRIBUT-
ING TO THIS CHANGE WERE THAT FOREIGN LIABILITIES DE-
CLINED BY ABOUT DM 190 MILLION, CLAIMS ON THE EUROPEAN
MONETARY FUND BY DM 427 MILLION AND GERMANY'S IMF GOLD
TRANCHE POSITION BY DM 27 MILLION. HOLDINGS OF LIQUID
FOREIGN EXCHANGE INCREASED BY DM 261 MILLION AND
CREDITS TO MONETARY AUTHORITIES (EXCEPT THE EUROPEAN
MONETARY FUND) INCREASED BY DM 206 MILLION. IN THE
PERIOD JUNE 24 THROUGH 30 THE BUNDESBANK'S NET FOREIGN
POSITION INCREASED FURTHER BY DM 0.4 BILLION TO DM 90.8
BILLION. FOREIGN EXCHANGE HOLDINGS DECLINED BY DM 117
MILLION WHILE CREDITS TO FOREIGN MONETARY AUTHORITIES
(AGAIN EXCEPT THE EUROPEAN MONETARY FUND) INCREASED
BY ANOTHER DM 206 MILLION. FOREIGN LIABILITIES DE-
CLINED BY ABOUT DM 320 MILLION.

5. BANK LIQUIDITY: IN THE PERIOD JUNE 16-23 BANK LIQUIDITY DECLINED BY DM 0.2 BILLION. THE MAJOR FACTOR REDUCING LIQUIDITY WAS A DM 6.9 BILLION INCREASE IN OFFICIAL ASSETS HELD AT THE BUNDESBANK DUE TO PAYMENTS UNCLASSIFIED

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FOR THE MID-JUNE TAX DATE. (FEDERAL GOVERNMENT ASSETS INCREASED BY DM 3.7 BILLION AND STATE GOVERNMENT ASSETS BY DM 3.1 BILLION). LIQUIDITY WAS INCREASED BY THE USUAL DECLINE IN CURRENCY IN CIRCULATION IN THE THIRD WEEK OF A MONTH (DM 1.9 BILLION -- WHICH, HOWEVER, THIS MONTH WAS SOMEWHAT LOWER DUE TO THE START OF THE VACATION SEASON) AND A DM 4.0 BILLION REDUCTION IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. OTHER FACTORS, NET, INCREASED LIQUIDITY BY DM 0.8 BILLION. THE BANKS FINANCED THE DECLINE IN LIQUIDITY BY INCREASING LOMBARD BORROWINGS BY DM 0.3 BILLION. AT THE SAME TIME THEY REDUCED REDISCOUNT BORROWINGS BY DM 0.1 BILLION. IN THE PERIOD JUNE 24-30 BANK LIQUIDITY DECLINED FURTHER BY DM 0.9 BILLION. THE MAJOR FACTOR INCREASING LIQUIDITY WAS A SUBSTANTIAL DM 5.8 BILLION DECLINE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK. THE ABOVE MENTIONED INCREASE IN BUNDESBANK MONETARY RESERVES AND OTHER, UNIDENTIFIED, FACTORS INCREASED, NET, BANK LIQUIDITY FURTHER BY DM 1.7 BILLION. LIQUIDITY WAS REDUCED BY THE USUAL INCREASE IN CURRENCY IN CIRCULATION AT THE END OF THE MONTH (DM 4.2 BILLION- AND A DM 4.2 BILLION INCREASE OF BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK TO MEET JUNE RESERVE REQUIREMENTS. BANKS FINANCED THE DECLINE IN LIQUIDITY BY INCREASING REDISCOUNT BORROWINGS BY DM 0.6 BILLION AND LOMBARD BORROWINGS BY DM 0.3 BILLION.

6. DECLINE IN FEDERAL GOVERNMENT CENTRAL BANK ASSETS: FROM JUNE 24 TO 30 ASSETS HELD BY THE FEDERAL GOVERNMENT AT THE BUNDESBANK DECLINED SUBSTANTIALY BY

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STR-04 CEA-01 PA-02 PRS-01 L-03 /108 W

----- 028105

R 061826Z JUL 76

FM AMEMBASSY BONN

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DM 3.5 BILLION AND NOW TOTAL DM 4.1 BILLION. IN THE SAME PERIOD BUNDESBANK ASSETS OF STATE GOVERNMENTS FELL BY DM 3.6 BILLION AND CURRENTLY AMOUNT TO DM 3.4 BILLION. THEREFORE, ON JUNE 30, ASSETS OF FEDERAL AND STATE GOVERNMENTS TOTALLED DM 7.5 BILLION AS COMPARED WITH DM 14.8 BILLION ON JUNE 23.

7. BOND MARKET: FOLLOWING A PERIOD OF RELATIVE STABILITY WHICH BEGAN IN EARLY MAY, PRICES OF DOMESTIC BONDS DECLINED AGAIN DURING THE REPORTING WEEK. NEW TENSION APPEARS TO HAVE RESULTED IN PART FROM A PRESS REPORT CONCERNING PUBLIC BORROWING REQUIREMENTS FOR THE REMAINDER OF 1976 (SEE BONN 11041) AND REPORTS ON UNCLASSIFIED

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BORROWINGS THROUGH SCHULDSCHEINDARLEHNEN BY THE STATE OF LOWER SAXONY AND THE FEDERAL GOVERNMENT. ACCORDING TO PRESS REPORTS THE SCHULDSCHEINDARLEHNEN WERE 10 YEAR OBLIGATIONS WITH A COUPON OF 8.75 PERCENT. ON JUNE 29 THE CENTRAL CAPITAL MARKET COMMITTEE RECOMMENDED OFFERING

THE FEDERAL GOVERNMENT LOAN AT A COUPON OF 8 PERCENT AND A MATURITY OF 5 YEARS BUT THE ISSUE PRICE REMAINS TO BE DETERMINED WITH PRIVATE BANKERS URGING AN ISSUE SLIGHTLY BELOW PAR.

8. FOREIGN DM BONDS: THE FOLLOWING FOREIGN DM BONDS ARE CURRENTLY OFFERED: BANQUE FRANCAISE DU COMMERCE EXTERIEUR (BFCE): DM 100 MILLION (COUPON 8.25 PERCENT, ISSUE PRICE 100, MATURITY 8 YEARS); CITY OF MONTREAL: DM 100 MILLION (8-1/2 PERCENT, 10 YEARS); KINGDOM OF NOWARY: DM 100 MILLION (7-1/2 PERCENT, ISSUE PRICE 100, 5 YEARS). EUROPEAN INVESTMENT BANK: DM 120 MILLION (8 PERCENT, ISSUE PRICE 100, 7 YEARS).

9. ECONOMIC INDICATORS PUBLISHED THIS WEEK: ACCORDING TO PRELIMINARY SEASONALLY-ADJUSTED DATA, THE VALUE OF NEW DOMESTIC ORDERS IN MAY INCREASED 0.5 PERCENT OVER APRIL AND THAT OF FOREIGN ORDERS BY 3 PERCENT. IN VOLUME TERMS, NEW ORDERS REMAINED AT THE APRIL LEVEL AS DID INDUSTRIAL PRODUCTION. DETAILS WILL BE REPORTED SEPARATELY. UNEMPLOYMENT, ON A NON-SEASONALLY-ADJUSTED BASIS, CONTINUED TO DECLINE IN JUNE; IT DROPPED BY 32,500 AND STOOD AT 921,000 AT MONTHS END. THE UNEMPLOYMENT RATE (NON-SEASONALLY-ADJUSTED) DROPPED FROM 4.2 PERCENT IN MAY TO 4.0 PERCENT IN JUNE. ALSO, THE NUMBER OF SHORT-TIME WORKERS DECLINED IN JUNE, I.E., BY 32,000 FOR A TOTAL OF 218,000.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, FINANCIAL TRENDS, FINANCIAL DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 06 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BONN11371
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760260-0414
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760789/aaaadalv.tel
Line Count: 359
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: schwenja
Review Comment: n/a
Review Content Flags:
Review Date: 22 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 APR 2004 by ThomasVJ>; APPROVED <09 AUG 2004 by schwenja>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING JULY 5)
TAGS: EFIN, GE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006